



FEB 23 2005

United States  
Department of  
Agriculture

**SUBJECT:** Availability of Nonfat Dry Milk in School Year 2005-2006

Food and  
Nutrition  
Service

**TO:** State Distributing Agencies  
Commodity Processors

3101 Park  
Center Drive

Alexandria, VA  
22302-1500


For your information, the Farm Service Agency has advised us that they do not anticipate availability of Commodity Credit Corporation (CCC)-owned nonfat dry milk (NDM) as a bonus commodity for School Year 05/06. Ultimately, market conditions may change, but we believe it is prudent to prepare for this likelihood.

For the record, FSA allocated 108 million pounds of bonus NDM in SY 04/05 for FNS programs. FSA is committed to fulfilling this obligation. FSA will continually reassess availability of CCC-owned NDM and will notify FNS should any additional CCC-owned stocks become available as bonus commodities.

State agencies should notify recipient agencies that the state processing option for NDM will end when CCC-owned inventories are depleted. Recipient agencies should consider this as they calculate how much entitlement money to set aside for cheese for the upcoming school year versus the amount of cheese they planned to obtain through processing bonus CCC-owned NDM. We acknowledge that cheese orders for School Year 05/06 are due by March 1 to project annual purchases. We will anticipate an increase in such purchases. Please bear in mind that adjustments can be made throughout the school year, should the market situation change.

The NDM processing options and waivers outlined in policy memo FD-001 will remain in place for schools until processors have depleted bonus NDM in inventory for each State agency. We strongly recommend that processors do not go into negative inventory since there is no guarantee that the NDM inventory will be replaced. The additional inventory draw down allowances outlined in the FD-001 policy memo will not be permitted for entitlement NDM. Those incentives were in place to encourage manufacturers to engage in NDM processing and reduce the NDM stockpiles.

Our sincere thanks and appreciation to commodity processors and States for embracing the FD-001 NDM Processing concept and developing innovative uses for the bonus CCC-owned NDM. In partnership with State agencies and processors, we have achieved a great deal in terms of maximizing the value of the bonus NDM.

  
Cathie McCullough  
Director  
Food Distribution Division

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